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NBER Working Papers

February 2016

How Did Pre-Fed Banking Panics End

Gary Gorton

Ellis W. Tallman

Summary

How did pre-Fed banking crises end? How did depositors' beliefs change? During the National Banking Era, 1863-1914, banks responded to the severe panics by suspending convertibility, that is, they refused to exchange cash for their liabilities (checking accounts). At the start of the suspension period, the private clearing houses cut off bank-specific information. Member banks were legally united into a single entity by the issuance of emergency loan certificates, a joint liability. A new market for certified checks opened, pricing the risk of clearing house failure. Certified checks traded at a discount to cash (a currency premium) in a market that opened during the suspension period. Confidence was restored when the currency premium reached zero.

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